

**DAGGETT COUNTY WATER AND SEWER DISTRICT**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2005**

**DAGGETT COUNTY WATER AND SEWER DISTRICT**  
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**ACCOUNTANTS' AUDIT REPORT**

Board of Trustees  
Daggett County Water and Sewer District  
P.O. Box 129  
Manila, Utah 84046

We have audited the accompanying financial statements of the business-type activities of Daggett County Water and Sewer District as of and for the year then ended December 31, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Daggett County Water and Sewer District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

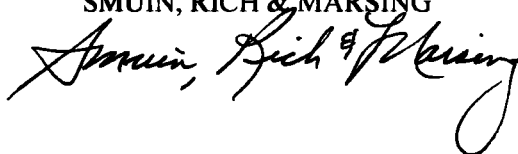
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Daggett County Water and Sewer District as of December 31, 2005 and the respective changes in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 1, 2006 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

SMUIN, RICH & MARSING

A handwritten signature in cursive script, appearing to read "Smuin, Rich & Marsing", written in dark ink.

Price, Utah

August 1, 2006

**DAGGETT COUNTY WATER & SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

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Our discussion and analysis of Daggett County Water and Sewer District's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2005.

**FINANCIAL HIGHLIGHTS**

- ❖ A decrease in net assets of \$962,699 occurred as a result of this year's operations, due in large part because of the contribution to Manila Town. The decrease was offset by a prior period adjustment of \$1,572,822, which occurred by recording the water rights held by Daggett County Water & Sewer District that had not previously been recorded. The net effect was an increase in net assets of \$610,123. This is a 57.16 percent increase in the net assets as compared to the prior year.
- ❖ The District's business-type activity revenues were \$1,407,743, which was an increase of \$1,198,362 over the prior year.
- ❖ The District's expenses for the year were \$2,370,442, which was an increase of \$2,183,308 from the year ended December 31, 2004.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Revenues, Expenses and Changes in Fund Net Assets and Statement of Cash Flows, pages 9 through 11, provide information about the activity of the District as a whole and present a longer-term view of the District's finances. Since the District is operated as an enterprise fund, there are no fund statements presented because all operations of the District are reported using the accrual method of accounting.

**REPORTING THE DISTRICT AS A WHOLE**

Our analysis of the District as a whole begins on page 9. The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Fund Net Assets report information about the District as a whole and about its activities in a way that helps determine if the District is better or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. Net assets equal the difference between assets and liabilities. This is one way to measure the District's financial position. Increases or decreases in the District's net assets are one indicator of whether the financial position of the District is improving or deteriorating. You will need to consider other non-financial factors, to assess the overall health of the District.

In the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Fund Net Assets, the District shows all of its activities in one fund.

- ❖ Business-type activities – The District charged fees to customers for culinary water services, other O&M costs and connection costs associated with the water system. These fees along with property taxes cover all or most of the cost of services associated with providing culinary water services.

## REPORTING THE DISTRICT'S SIGNIFICANT FUND

The District has only one fund, which accounts for the activity of the District. The entity-wide financial statements begin on page 9 and provide detailed information about the operations of the District as a whole. The District's only fund is operated as an enterprise fund. Enterprise funds are reported using an accounting method called accrual accounting, which records expenses when they are incurred and records revenues when they are earned. The District does not have any governmental type funds.

## THE DISTRICT AS A TRUSTEE

The District does not hold any funds or property in a trustee capacity.

## THE DISTRICT AS A WHOLE

Net assets of the District changed by \$610,123 from a year ago, increasing from \$1,069,169 to \$1,679,292. The following analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the District's business-type activity.

**Table 1**  
**Net Assets**  
**2005**

	<b>Business-type Activities</b>	
	<b>2005</b>	<b>2004</b>
Current and other assets	\$ 37,037	\$ 162,874
Capital assets	<u>1,642,486</u>	<u>2,275,469</u>
Total assets	<u>\$ 1,679,523</u>	<u>\$ 2,438,343</u>
Long-term debt outstanding		\$ 1,246,500
Other liabilities	<u>\$ 231</u>	<u>122,674</u>
Total liabilities	<u>\$ 231</u>	<u>\$ 1,369,174</u>
Net assets:		
Invested in capital assets, net of debt	\$ 1,642,486	\$ 960,869
Restricted		91,239
Unrestricted	<u>36,806</u>	<u>17,061</u>
Total net assets	<u>\$ 1,679,292</u>	<u>\$ 1,069,169</u>

Net Assets of the District are \$1,679,292. *Unrestricted* net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements—are \$36,806. These net assets are used to finance the continuing operations of the District.

**Changes in Net Assets**  
**2005**

	<b>Business-type Activities 2005</b>	<b>Business-type Activities 2004</b>
<b>Revenues</b>		
<b>Program Revenues:</b>		
Charges for services	\$ 124,967	\$ 192,440
<b>General Revenues:</b>		
Property taxes	17,448	16,190
Intergovernmental revenue	1,264,318	
Other general revenues	1,010	751
Total revenues	<u>\$ 1,407,743</u>	<u>\$ 209,381</u>
<b>Program expenses</b>		
<b>Culinary Water:</b>		
Salaries and fringe	\$ 25,945	\$ 31,029
Materials and supplies	26,790	34,112
Contract services/professional fees	15,145	21,414
Utilities	6,039	8,188
Insurance	3,359	3,381
Interest expense	18,558	13,642
Depreciation	35,201	65,464
Other	7,110	9,904
Total expenses	<u>\$ 138,147</u>	<u>\$ 187,134</u>
Operating income (loss)	\$ 1,269,596	\$ 22,247
Extraordinary item - Contrib. to Manila	<u>(2,232,295)</u>	
Change in net assets	<u>\$ (962,699)</u>	<u>\$ 22,247</u>
Net assets - beginning	\$ 1,069,169	\$ 1,046,922
Prior period adjustment	1,572,822	
Net assets - ending	<u>1,679,292</u>	<u>1,069,169</u>
	<u>\$ (962,699)</u>	<u>\$ 22,247</u>

## BUDGETARY HIGHLIGHTS

Over the course of the year, the Board made no revisions to the District's budget.

Since the District operates as an enterprise fund, it is only required to comply with the budget on an entity wide basis. Without any budget adjustments, the actual charges to expenses were \$2,140,623 above the final budget amount. This negative variance occurred because of the contribution to Manila Town.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2005, the District had net capital assets of \$1,642,486, which included water rights, buildings, and office equipment. (see Table 3 below). During the year the District and Manila Town reached an agreement whereby the District transferred its water system to Manila Town and Manila Town now operates it and supplies water to the residents formerly served by the District. This greatly reduced the District's capital assets. Water rights, which had not previously been recorded, were added to the District's capital asset list.

**Table 3**  
**Capital Assets at Year-end**  
**(Net of Depreciation)**  
**2005**

	<b>Business-type Activities</b>	
	<b>2005</b>	<b>2004</b>
Land & Easements		\$ 33,733
Water rights	\$ 1,573,134	
Buildings	68,788	
Office equipment	564	
Water distribution system		2,241,736
Net capital assets	<u>\$ 1,642,486</u>	<u>\$ 2,275,469</u>



### Capital Assets (Continued)

There were no major capital asset additions during the fiscal year 2005. There was a prior period adjustment for previously unrecorded water rights of \$1,573,134. The District has not budgeted any new capital expenditures for the fiscal year 2006.

### Debt

At year-end, the District did not have any bonds outstanding. This was a decrease of \$1,314,600 from last year's outstanding balance. The debt is shown in Table 4. The agreement with Manila Town included the payment of the District's debt. Manila Town obtained grants and loans that enabled them to pay off the District's debt.

**Table 4**  
**Outstanding Debt at Year-end**  
**2005**

	<b>Business-type Activities</b>	
	<b>2005</b>	<b>2004</b>
Revenue bonds payable		<u>\$ 1,314,600</u>
Bond outstanding	<u>\$ ...</u>	<u>\$ 1,314,600</u>

All of the debt was water revenue bonds that were used for installation, upgrade and maintenance of the water transmission line. More detailed information about the District's long-term liabilities is presented in Note 6 to the financial statements.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The economic situation for the area covered by the Daggett County Water and Sewer District has not changed in the last several years. The major employers are agriculture, Daggett County Jail, Daggett County, Manila Town and Daggett County School District. Over the last several years the State of Utah water and sewer agencies have encouraged the District and Manila Town to work together to provide a more economical system of providing these services to the citizens of Daggett County. During the year, Daggett County, the District and Manila Town agreed to have Manila Town assume the debt and the water system of the District and provide all of the water and sewer services for residents living within the District's boundaries. The financial activity of the District will be minimal in future years.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET (Continued)**

The District budgeted revenues in the amount of \$14,400 for the fiscal year 2006, which consists primarily of property taxes. Total expenditures for 2006 were budgeted at \$13,921 to cover salaries and benefits and operating expenses. The District has not budgeted for the purchase of any additional capital assets for 2006.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Board Office at P.O. Box 129, Manila, Utah 84046.

**DAGGETT COUNTY WATER AND SEWER DISTRICT**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUND**  
**DECEMBER 31, 2005**

**BUSINESS-TYPE ACTIVITY**  
**ENTERPRISE FUND**

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**WATER SYSTEM**

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**ASSETS**

Current Assets:	
Cash and investments	\$ 31,192
Taxes receivable	5,845
	<hr/>
Total current assets	\$ 37,037
	<hr/>
Noncurrent Assets:	
Water rights	\$ 1,573,134
Building	101,159
Equipment	1,321
Less: accumulated depreciation	(33,128)
	<hr/>
Total noncurrent assets	\$ 1,642,486
	<hr/>
Total assets	\$ 1,679,523
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**LIABILITIES AND NET ASSETS**

Current Liabilities:	
Accrued liabilities	\$ 231
	<hr/>
Total liabilities	\$ 231
	<hr/>
Net Assets:	
Investment in capital assets, net of related debt	\$ 1,642,486
Unreserved	36,806
	<hr/>
Total net assets	\$ 1,679,292
	<hr/>
Total liabilities and net assets	\$ 1,679,523
	<hr/>

"The accompanying notes are an integral part of this statement."

**DAGGETT COUNTY WATER AND SEWER DISTRICT  
STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	BUSINESS-TYPE ACTIVITY ENTERPRISE FUND
	WATER SYSTEM
Operating revenues:	
Charges for services	\$ 120,522
Miscellaneous	4,445
Total operating revenue	<u>\$ 124,967</u>
Operating expenses:	
Water Purchases	\$ 3,197
Water hookups	5,468
Salaries and benefits	24,034
Utilities and telephone	6,039
Depreciation	35,201
Insurance	3,359
Office supplies and postage	2,611
Bank charges	75
Travel	2,387
Conventions	661
Rent	3,377
Professional fees	15,145
Water testing	58
Payroll taxes	1,911
Chemicals	750
Repairs and maintenance	11,705
Vehicle expense	2,984
Miscellaneous	427
Total operating expenses	<u>\$ 119,389</u>
Operating income (loss)	<u>\$ 5,578</u>
Nonoperating revenues (expenses):	
Property taxes	\$ 17,448
Interest revenue	1,010
Intergovernmental income	1,264,318
Trust fees	(200)
Interest expense	(18,558)
Total nonoperating revenues	<u>\$ 1,264,018</u>
Income before extraordinary items	<u>\$ 1,269,596</u>
Extraordinary item -- Contribution to Manila	<u>(2,232,295)</u>
Change in net assets	<u>\$ (962,699)</u>
Total net assets, January 1, 2005	1,069,169
Prior period adjustment	<u>1,572,822</u>
Total net assets, December 31, 2005	<u>\$ 1,679,292</u>

"The accompanying notes are an integral part of this statement."

**DAGGETT COUNTY WATER AND SEWER DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 131,418	
Cash payments to suppliers for goods and services	(67,467)	
Cash payments to employees for services	(24,101)	
Net cash provided by operating activities		\$ 39,850
<b>Cash flow from noncapital financing activities:</b>		
Property taxes	\$ 17,440	
Net cash provided from noncapital financing activities		17,440
<b>Cash flows from capital and related financing activities:</b>		
Principal paid on bonds	\$ (1,314,600)	
Trust fees on bond escrow	(200)	
Intergovernmental revenue	1,264,318	
Interest paid on bonds	(18,558)	
Net cash used for capital and related financing activities		(69,040)
<b>Cash flow from investing activities:</b>		
Contribution to Manila	\$ (61,691)	
Interest income on investments	1,010	
Net cash provided from investing activities		(60,681)
Net decrease in cash and cash equivalents		\$ (72,431)
Cash and cash equivalents at beginning of year		103,623
Cash and cash equivalents at end of year		\$ 31,192
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income (loss)		\$ 5,578
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	\$ 35,201	
Change in assets and liabilities:		
Decrease in accounts receivable	6,451	
Decrease in accrued liabilities	(67)	
Decrease in accounts payable	(7,313)	
Total adjustments		34,272
Net cash provided by operating activities		\$ 39,850

"The accompanying notes are an integral part of this statement."

**DAGGETT COUNTY WATER AND SEWER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Daggett County Water and Sewer District was created by order of the Daggett County Board of County Commissioners on November 29, 1978. The District has provided culinary water service to residents in the designated service area in Daggett County since it was created. During the year 2005 Daggett County Water and Sewer District entered into a Water System Transfer Agreement with Manila Town. The District transferred title to its entire Water System to Manila Town and Manila will hereafter own and operate the system. The District conveyed all of its assets and liabilities, except for the Water Rights, office supplies, a computer, business records not related to the operation of the Water System, and cash on hand to Manila Town. A part-time Board of Trustees, elected to office by residents of the service area, manages the District.

The accompanying statements of the Daggett County Water and Sewer District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The financial statements include all organizations, activities, and functions that comprise the District. Component units are legally separate entities for which the District (the primary entity) is financially accountable. Financial accountability is defined as the ability to appoint a voting majority of the organization's governing body and either (1) the District's ability to impose its will over the organization or (2) the potential that the organization will provide a financial benefit to, or impose a financial burden on, the District. Using these criteria, the District has no component unit.

**B. Government-Wide Financial Statements**

The government-wide financial statements consist of the statement of net assets, the statement of revenues, expenses and changes in fund net assets and the statement of cash flows. The District is considered a special-purpose government engaged only in business-type activities. It is classified as a proprietary fund type and operates as an enterprise fund. Enterprise funds are used to account for the operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that its costs to provide goods and services to the general public on a continuing basis, be financed or recovered primarily through user charges. The function of the Daggett County Water and Sewer District is limited to one purpose, which is the providing of water and sewer services to residents within its service area. Operations have been funded primarily through service charges to users of the system. Property taxes are also levied to supplement operating revenues. Only one fund, the Enterprise Fund, is used to account for the district's activities, and neither fiduciary funds nor component units that are fiduciary in nature are included.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

C. **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recognized when earned and expenses are recognized in the period incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Proprietary Fund Financial Statements** – Proprietary funds distinguish between operating and nonoperating revenues and expenses. Operating revenues and expenses result from providing goods and services relating to the primary operations of the proprietary fund. Other revenues and expenses are reported as nonoperating.

**Private-Sector Standards of Accounting and Financial Reporting** – The District generally applies to both the government-wide and proprietary fund statements all Financial Accounting Standards Board (FASB) Statements and Interpretations, APB Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). The District has elected not to follow private-sector guidance subsequent to that date.

D. **Cash and Investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition, including investments in the Public Treasurers' Investment Fund (PTIF).

Investments are reported at fair value. The PTIF's reported value is basically the same as the fair value of the Fund's shares.

E. **Capital Assets**

Capital assets, which include water rights, buildings, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the District as an asset with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. When capital assets are disposed, the cost and applicable accumulated depreciation are removed and the resulting gain or loss is recorded in operations. Buildings and equipment of the District are depreciated using the straight-line method of depreciation over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	29 to 50 years
Equipment	5 years

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

F. **Net Assets**

Net assets represent the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their uses by District legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

G. **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

H. **Budgetary Data**

Budgets are presented on the accrual basis for proprietary funds. All annual appropriations lapse at fiscal year end. The following procedures are used in establishing the budgetary data reflected in the financial statements.

- 1) During November of each year, the District manager submits to the Board a proposed operating budget for the next fiscal year commencing January 1. This budget includes proposed expenditures and the means of financing them. Included also is a final budget for the current year ending December 31.
- 2) Copies of the proposed budget are made available for public inspection and by review of the patrons of the District.
- 3) A public hearing is held prior to December 31 at which time the budget is legally adopted by resolution of the Board after obtaining public input. If the District exceeds the certified tax rate, the budget is adjusted when data is available to set the rates.
- 4) Once adopted, the budget can be amended by subsequent Board action. The Board, upon recommendation of the manager, can approve reductions in appropriations, but increases in appropriations by fund require a public hearing prior to amending the budget. In accordance with Utah State law, interim adjustments may be made by the administrative transfer of money from one appropriation to another within any given fund.
- 5) No interim adjustments in estimated revenue and appropriations during the year ended December 31, 2005, have been included in the final budget approved by the Board, as presented in the financial statements.
- 6) Expenditures may not legally exceed budgeted appropriations at the fund level.

I. **Compensated Absences**

There were no employees of the District who at year-end had any payroll benefits to accrue for compensated absences.



## **2. PROPERTY TAXES**

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on or before June 22 and are payable on or before November 30. The amount of estimated revenue from property taxes required by the budget constitutes the basis for determination of the amount of taxes levied. Taxes are collected by the County and paid to the District during the year.

## **3. DEPOSITS AND INVESTMENTS**

Deposits and investments for the District, is governed by the Utah Money Management Act (Utah Code, Title 51, Chapter 7) and rules of the State of Utah Money Management Council.

The District follows the requirements of the Utah Money Management Act (Utah Code, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of District funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

### **Deposits**

The District maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the fund financial statements as cash and investments. Income from the investment of pooled cash is allocated based on each fund's portion of the pool. In addition, cash is separately held by individual funds.

### ***Custodial Credit Risk***

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. At December 31, 2005, the District's bank balance of cash on deposit was \$42,089 and of this amount \$42,089 was insured.

### **Investments**

The Money Management Act defines the types of securities authorized as appropriate investments for the District and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the District to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

### 3. DEPOSITS AND INVESTMENTS (Continued)

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer. The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, and Utah Code Annotated, 1953, as amended. The Act established the Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of December 31, 2005, the District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More than 10
State of Utah Public Treasurer's Investment Fund	\$ 25,068	\$ 25,068			
Total Investments	\$ 25,068	\$ 25,068	\$ ...	\$ ...	\$ ...

#### *Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages this risk in part by investing in the Utah Public Treasurers Investment Fund. The District also manages its exposure to fair value loss arising from increasing interest rates by complying with the State's Money Management Act. Section 51-7-11 of the Act which requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptance, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 2 years.

#### *Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District has not adopted a formal policy with regards to credit risk on investments but the District informally follows the policy for reducing its exposure to credit risk by complying with the State's Money Management Act as previously discussed.

3. **DEPOSITS AND INVESTMENTS (Continued)**

At December 31, 2005, the District had the following investments and quality ratings:

<u>Investment Type</u>	<u>Fair Value</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Unrated</u>
State of Utah Public Treasurer's Investment Fund	\$ 25,068				\$ 25,068
Total	<u>\$ 25,068</u>	<u>\$ ...</u>	<u>\$ ...</u>	<u>\$ ...</u>	<u>\$ 25,068</u>

*Concentration of Credit Risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's informal policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. No more than 5% of all funds may be invested in securities of a corporation that has been in continuous operation for less than three years. No more than 5% of the outstanding voting securities of any one corporation may be held. In addition, Rule 2 limits investment concentrations in certain types of investments. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio.

*Custodial Credit Risk*

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a formal policy for custodial credit risk. As of December 31, 2005, the District had \$25,068 invested in the Public Treasurer's Investment Fund and was held by them.

4. **RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. To more economically cover these liabilities, they joined together with other cities and governmental entities to form a public entity risk pool that operates as a common risk management and insurance program. The District pays an annual premium to the risk management pool for its third party liability insurance coverage. The agreement forming the risk management pool provides that the pool will be self-sustaining through member premiums and will reinsure through commercial company at various levels of risk.

5. **CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2005 was as follows:

	ASSET COST			
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Water rights		\$ 1,573,134		\$ 1,573,134
Land-Easements	\$ 33,733		\$ (33,733)	
Total capital assets not being depreciated	\$ 33,733	\$ 1,573,134	\$ (33,733)	\$ 1,573,134
Capital assets being depreciated:				
Water Systems	\$ 2,955,104		\$(2,955,104)	
Buildings		\$ 101,159		\$ 101,159
Equipment	31,206		(29,885)	1,321
Total capital assets being depreciated	\$ 2,986,310	\$ 101,159	\$(2,984,989)	\$ 102,480
Less accumulatlled depreciation for:				
Water Systems	\$ 713,368		\$ (713,368)	
Buildings		\$ 32,371		\$ 32,371
Equipment	31,206	446	(30,895)	757
Total accumulated depreciation	\$ 744,574	\$ 32,817	\$ (744,263)	\$ 33,128
Total capital assets, being depreicated, net	\$ 2,241,736	\$ 68,342	\$(2,240,726)	\$ 69,352
Business-type activities capital assets, net	\$ 2,275,469	\$ 1,641,476	\$(2,274,459)	\$ 1,642,486

## 6. LONG-TERM DEBT

**Revenue Bond** – Revenue bonds were paid off with the transfer of assets and liabilities to Manila Town. The District has no outstanding balances for the following four issues:

The Community Impact Board bond was payable in 25 annual installments of \$12,100 beginning July 1, 1986, at zero interest. The purpose was to finance all or a portion of the costs of the acquisition, construction and improvement of the water system. This was paid in full at the time the District transferred all assets and liabilities to Manila Town.

The Department of Health, Utah Safe Drinking Water Committee Bond was payable in 25 annual installments ranging from \$6,000 to \$24,000, beginning December 1, 1992, at zero percent interest. The purpose was to finance all or a portion of the costs of the water system. This was paid in full at the time the District transferred all assets and liabilities to Manila Town.

Community Impact Board – Parity Water Revenue Bond Series 1999A was payable at \$20,000 per year, beginning January 1, 2001 for a period of 30 years. It was non-interest bearing. The purpose was to finance all or a portion of the costs of the water system. This was paid in full at the time the District transferred all assets and liabilities to Manila Town.

Utah Drinking Water Board – Parity Water Revenue Bond Series 1999B was payable at a net after debt forgiveness of \$30,000 per year for 20 years, zero interest. In addition to the debt payment, an annual hardship grant assessment of 2.675% of the outstanding bond was also due. This was paid in full at the time the District transferred all assets and liabilities to Manila Town.

### Change in long-term liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

	Bonds Payable Beginning Balance	New Additions	Reductions	Bonds Payable Ending Balance	Due Within One Year
<b>Business-Type Activities:</b>					
<b>Bonds Payable:</b>					
Safe Drinking Water Committee	\$ 222,000		\$ 222,000		
Community Impact Board	72,600		72,600		
Parity Water Rev. Bonds 1999A	540,000		540,000		
Parity Water Rev. Bonds 1999B	480,000		480,000		
<b>Totals</b>	<b>\$ 1,314,600</b>	<b>\$ ...</b>	<b>\$ 1,314,600</b>	<b>\$ ...</b>	<b>\$ ...</b>

7. **PRIOR PERIOD ADJUSTMENT**

Daggett County Water and Sewer District had not previously recorded their Water Rights as capital assets. The Prior Period Adjustment of \$1,573,134 is to record the Water Rights that have been held by the District for many years, as capital assets.

8. **EXTRAORDINARY EVENT**

The Extraordinary Event recorded is the contribution to Manila Town. An interlocal agreement between Daggett County Water and Sewer District and Manila Town transferred all water production, distribution and customer billing operations to the Town of Manila.

# SMUIN, RICH & MARSING

CERTIFIED PUBLIC ACCOUNTANTS

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## MEMBERS

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS  
UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees  
Daggett County Water and Sewer District  
P.O. Box 129  
Manila, Utah 845046

RE: Report on Compliance and other matters  
and on Internal Control Over Financial  
Reporting Based on an Audit of Financial  
Statements Performed in Accordance With  
Government Auditing Standards

We have audited the financial statements of Daggett County Water and Sewer District as of and for the year ended December 31, 2005, and have issued our report thereon dated August 1, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance and Other Matters

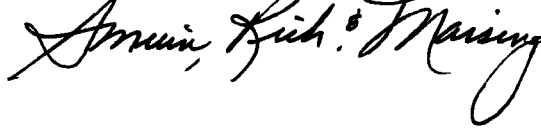
As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the organization and the board of trustees and is not intended to be and should not be used by anyone other than these specified parties.

SMUIN, RICH & MARSING

A handwritten signature in cursive script, appearing to read "Armin Rich Marsing", written in dark ink.

Price, Utah

August 1, 2006



# SMUIN, RICH & MARSING

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UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees  
Daggett County Water and Sewer District  
P.O. Box 129  
Manila, Utah 84046

Re: Report on Legal Compliance with  
Applicable Utah State Laws and  
Regulations

We have audited the financial statements of the business-type activities of Daggett County Water and Sewer District for the year ended December 31, 2005, and have issued our report thereon dated August 1, 2006. Our audit included testwork on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

Public Debt  
Cash Management  
Purchasing Requirements  
Truth in Taxation and  
Property Tax Limitations

Special Districts  
Other General Issues  
Budgetary Compliance  
Impact Fees

The District did not receive any major or nonmajor State grants during the year ended December 31, 2005.

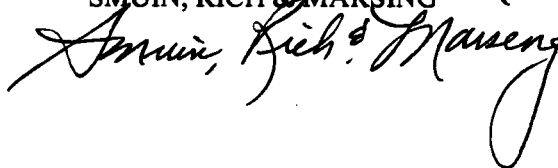
The management of Daggett County Water and Sewer District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Dagget County Water and Sewer District complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2005.

SMUIN, RICH & MARSING

A handwritten signature in cursive script, appearing to read "Smuin, Rich & Marsing", written in dark ink.

Price, Utah

August 1, 2006

# SMUIN, RICH & MARSING

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UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees  
Daggett County Water and Sewer District  
Manila, Utah 84046

Ladies/Gentlemen:

The following comments and recommendations are a result of our review of the accounting procedures and internal controls in connection with our examination of the financial statements of Daggett County Water and Sewer District for the year ended December 31, 2005.

Since our review was made primarily to determine the scope of our auditing procedures and was not intended as a comprehensive study or evaluation of the systems and procedures, this memorandum should not be considered all inclusive.

We welcome the opportunity to discuss any items mentioned in this memorandum or any other accounting or procedural questions.

### **SUPPORTING DOCUMENTS FOR EXPENDITURES**

While performing auditing procedures on the District's disbursements, we were unable to locate supporting documentation, in the form of invoices, for 3 of the 35 checks that we selected for examination.

To provide effective internal control, we recommend the District require invoices as support for expenditures. In addition, the board should initial each invoice as approval for payment and have each invoice marked paid so double payment does not occur.

***District's Response*** – The District will review its procedures for providing documentation of expenditures. In the future they will try to insure that all disbursements have adequate third party documentation.

### **ADOPTION OF TAX RATE**

Each year on or before June 22, the District is required to adopt a certified tax rate for the District. During the year, we were unable to find in the minutes where the District had recorded adopting their certified tax rate.

We recommend the District record the adoption of their certified tax rate in the minutes of their public meetings.

***District Response*** – The District Board did adopt the certified rate and will make sure it is recorded in the minutes of the Board.

## MINUTES

While performing auditing procedures on the District, we reviewed minutes to verify actions of the board of trustees and to find transactions or commitments that may have been made by the Board. During our review of the minutes, we were able to locate minutes only for the month of January 2005. We were unable to locate minutes for any of the other months of the year. We were also unable to verify, through other sources, whether minutes were missing or meetings had not been held.

We recommend the District record in their January meeting a schedule of all meetings that will be held during the year. We also recommend that minutes be recorded for each meeting and made available for review.

**District Response** – The District is aware of the importance of keeping minutes of their meetings. The Board will review past meeting schedules and make sure minutes have been kept. Also, in the future the District will make sure to keep minutes of their meetings.

## BUDGETARY COMPLIANCE

Utah Code states that Officers and employees of an entity shall not incur expenditures or encumbrances in excess of the total appropriation for any department or fund. The District has expenditures in excess of the budget for the Enterprise Fund.

We recommend that the District comply with Utah Code and ensure that expenditures are within the approved budget adopted by the District's Board.

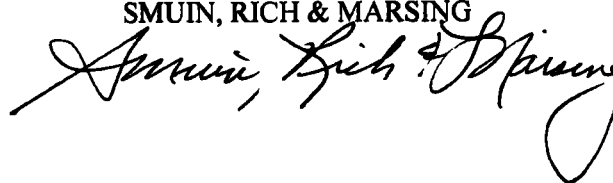
**District Response** – We understand that we are prohibited from exceeding our adopted budget. We will follow our expenses on a regular basis and determine at year end if the budget balances are adequate.

## SUMMARY

Overall, we feel the accounting procedures and internal control items mentioned above are areas where the District can make changes so as to further improve its internal control structure to safeguard the assets, check the accuracy and reliability of accounting data and promote operating efficiency.

Sincerely,

SMUIN, RICH & MARSING

A handwritten signature in cursive script, appearing to read "Smuin, Rich & Marsing", written in dark ink.

Price, Utah

August 1, 2006